OPPORTUNITY FINANCE NETWORK

INNOVATION GUIDE

The Triple Bottom Line Collaborative:

CDFIs and Triple Bottom Line Lending

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The Triple Bottom Line Collaborative: CDFIs and Triple Bottom Line Lending

—Disclaimer—

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Introduction

Most community development financial institutions (CDFIs) employ a double bottom line criteria for their impact: economic and social. Some CDFIs have a history of focusing on environmental elements in their lending, and as environmental concerns gain prominence in the mainstream agenda, more CDFIs have looked to incorporate it as the third bottom line.

This Innovation Guide outlines some of the theories and concepts behind the triple bottom line (TBL) and explores a strategy for CDFIs to incorporate this new way of thinking as set out by the Triple Bottom Line Collaborative (TBLC), a CDFI member collaborative exploring the metrics of triple bottom line lending. TBLC members will attest that there is no straightforward prescription for adopting a TBL approach. It requires a paradigm shift that entails a long-term commitment, patience, and a whole new way of looking at impact.

This guide aims to

- Offer a model for CDFIs working to develop a triple bottom line,
- Encourage other CDFIs to investigate TBL lending for their own portfolio, and
- Provide concrete recommendations and tools for CDFIs moving into TBL lending.

Who is the Triple Bottom Line Collaborative?

In 2003, Coastal Enterprises Inc. (CEI) of Wiscasset, Maine, and Shorebank Enterprise Cascadia (SBEC) of Ilwaco, Washington, long involved in their own versions of TBL investing, submitted a successful application to the Ford Foundation to establish the "Triple Bottom Line Practitioners' Collaborative" with the goal of exploring strategies for adding the third bottom line to double bottom line investing, in collaboration with seven peer CDFIs.

The criteria for membership were as follows:

- At least $500,000 for investment in TBL deals
- A commitment to measuring and reporting on TBL outcomes in the context of a credible theory of change
- A desire to expand the practice and engage in policy on local, state, and federal levels
- A history of and current involvement in natural resources development
- Recognition of the value of urban-rural linkages supporting markets, regional economic vitality, and specific issues such as alternative energy development

Most of the TBLC members have a rural focus, and this means that key tools developed by TBLC embrace a range of lending, such as natural capital, manufacturing, and agriculture; the question of metrics for TBL deals was a difficult one.

TBLC began with a nine-point system and methodology developed by SBEC and added to it in order to reflect requirements of the various bioregions represented by TBLC members. The compiled list of metrics was applied to each TBLC member's investments, and long discussions ensued. Each proposed loan was vetted with the group in conference calls, and this ad hoc credit committee discussed the relative merits both of the various deals and their relationship to the evolving TBL Scorecard, the rating system that was developed by the group to define TBL deals. (This tool is discussed under the section The TBL Deal Scorecard).

TBLC members learned a tremendous amount in the course of their conversations. Their meetings took place on conference calls and in two face-to-face gatherings. Guest speakers were invited to present on various related topics, and thorough discussions took place that advanced and clarified the understanding of TBL for all members. All members have realized the value of collaborative discussion and the usefulness of bringing learnings and best practices to the group to be shared.

Background: Why Do CDFIs Need a Triple Bottom Line?

CDFIs are guided by a double bottom line agenda:

- They watch their own financial bottom line through key indicators and metrics.
- They track metrics that indicate social impact in low-income communities, metrics such as jobs created/maintained, housing units created or rehabbed, dollars lent in low-income communities, women/minority-owned enterprises financed, and so forth.

Why should CDFIs, many who are operating on limited capacity, want to complicate their lending with a third bottom line? The report World Resources 2005—The Wealth of the Poor, states, "The link between the environment and poverty reduction is strong." The report goes on to quantify the vital role of natural resources for rural populations in the developing world, primarily Africa, Asia, and Latin America. The same argument can be made for the regions of rural America where poverty persists, and for that matter, for any communities of the un- or underemployed and underserved struggling in inner cities. The April 2007 release of the report on climate change (issued in Brussels, Belgium, by The Intergovernmental Panel on Climate Change, a United Nations network of 2,000 scientists) states clearly that the poor in all nations will suffer the most as the climate warms.

It is clear that when natural resources are compromised or environmental practices are unsustainable, the lives of individuals in communities of low wealth suffer the most. Pressing environmental issues that tie into equity for low-income communities include the following:

- Ownership and use of natural resources, and the related impacts on traditional, place-based industries
- Impacts of globalization
- Water quality and watershed health
- Global warming and related macro-systems issues
- Habitat impacts and open space

As a result of the growing awareness of ecological concerns, CDFIs are beginning to take a new approach to their community development practice—investing in diverse natural resources, real estate, community facilities, affordable housing, and related community-development enterprises with three criteria for investing in mind:

- The economic feasibility or financial merits of the project for the CDFI's financial bottom line;
- The equity contribution of the project to individuals and families in the form of good wages, ownership, and asset-creating opportunities for underserved populations; and
- The benefits and effects of the project's operations, products, services, supply chain, and related policies and practices on the environment.

The awareness that environmental, economic, and equity issues are inextricably linked has opened a TBL investing opportunity in the finance industry. A disciplined approach to triple bottom line investing is fertile ground, strategically, for CDFIs. The field of "sustainability" is in its infancy, and the theory behind TBL metrics formulation and methodology that can support sustainable practice is even less developed. The emerging opportunity requires clear and strategic thinking. CDFIs, long trusted for doing well by doing good, are in a strong position to take advantage of this opportunity.

There is no doubt that the current and emerging TBL market opportunities for CDFIs are prolific. Incorporating environmental goals into lending strategies creates new market opportunities—for green building, e-waste recycling, renewable energy and conservation, and lean manufacturing—and opens new sources of capitalization. Additionally, new terrain opens for creating nontraditional collaborative partnerships. These factors can catalyze innovation and recharge our industry.

Ultimately, the aspiration of the CDFIs practicing TBL lending is to fundamentally change the community development, conservation, and environmental movements, bringing all to a place that embraces holistic thinking about sustainability and community development.

Tools for TBL Lending

The following sections of this guide will outline a few of the tools and practices developed by the TBLC that can help CDFIs integrate a TBL approach into their lending. These tools run the gamut from educational experiences (participating in a peer network collaboration) to implementation tools (the TBL Scorecard) to internal controls (measuring TBL impact) to leveraging borrower activity (technical assistance, or TA, and consulting assistance). There are many white papers and books now being written on TBL practices and metrics.

For the purposes of this guide, we will focus on the following:

- Participation in a peer network
- Utilization of a TBL Scorecard for tracking loan deals
- TBL deals appropriate for your CDFI
- Where your CDFI should start
- Dos and don'ts of building a TBL strategy

Learn More: Participate in a TBL Peer Network
TBL investing is in its early phases, and one way to get involved is to join with other interested CDFIs in a forum for sharing knowledge, resources, experiences, and frustrations.

The TBL Scorecard
The TBL Scorecard, developed by the TBL Collaborative, is a tool used to measure what TBLC has called TBL deals. The requirement for this designation was that a TBL loan needed to "hit" at least one metric in each of the Three "E" categories. A TBL deal had to be a "triple."

One of the first steps in developing this tool was to define the term triple bottom line in terms of the CDFI industry. TBLC reviewed many TBL models and definitions and adapted its own definitions for measuring the Three E's:

- **Economy**—The purpose of this metric category is to measure improvements to the economic health of individuals, enterprises, and communities. Therefore, this category measures how TBL loans/investments generate income or assets for individuals and enterprises and how this then improves community or regional economic health. Metrics include tracking jobs created or retained, payroll and benefits, other capital leveraged into the region, housing units constructed, and goods or services locally sourced.
- **Equity**—This category measures the investments' contribution to building social capital by providing capital, assistance, and asset development to historically disadvantaged individuals, sectors, and communities.
- **Environment**—The purpose of this metric category is to measure both increasing positive effects and reducing negative effects on nature's macro systems through sustainable management of resources, by protecting water quality and systems, and through reduction in material use, toxics, energy consumption, and greenhouse gas emissions.

We should point out here that when most CDFIs think of triple bottom line lending, they think of their own financial bottom line, social impact, and the environment. TBLC has distinguished the social impact bottom line into two separate categories, equity and economy, whereby economy measures the general economic impact of the investment, and equity looks at the impact in low-income communities. Naturally, the TBLC members also look to their own bottom line, but this is not accounted for in the metrics they developed.

The grid below breaks this out in more detail. This is the grid that SBEC has developed. The TBLC grid is larger and more complicated due to the diversity of lending undertaken by the different members.

Economic Outcomes	Environmental Outcomes	Social Equity Outcomes
Number of Full-time Jobs Created and/or Retained (#)	Functioning Riparian Zone (feet)	People of Color and Women Entrepreneurs Assisted (#)
Leveraged Investment ($)	Land in Sustainable Management (acres)	Low-income Families Assisted (#)
Number of Value-added Businesses (#)	Gallons of Water Diverted from the Waste Stream (gallons)	Local Land Tenure ($ appraisal)

These nine metrics are not the only indicators SBEC uses to measure the success of its loan portfolio or its own financial health. Any business, to be sustainable, must monitor its economic health; these nine TBL measurements do not replace traditional accounting methods. SBEC uses all the traditional measurements of loan loss, creditworthiness of the borrower, loan fees and cost of funds, and other aspects that monitor its lending products. In fact, SBEC uses a Balanced Scorecard approach with a total of over 90 metrics in the following categories: performance indicators, external and internal outcomes, asset management outcomes, business outcomes, relationship and positioning, and conservation (internal operations measures). The point is that these TBL metrics capture a trend in the portfolio: How well are we doing in finding and funding deals that *support integrated and mission-critical* lending goals?

The TBL Scorecard focuses on direct impacts of the loan investment as reported by the borrower. While it is easy to recognize the environmental bottom line in some deals, such as the purchase and installation of wind turbines, in others it is less clear. The environmental component of many TBL deals just reduces the negative environmental impact from what it would otherwise have been. For example, a car factory could include technology that reduces waste or uses key manufacturing materials that have a reduced environmental impact compared to the conventional material. However, an auto factory producing hybrids will have a much greater positive impact on the environment because of the secondary effects of product users.

Another example is a business that uses local products, and therefore, keeps local money in the community by “adding value” to local raw materials: for instance, a furniture maker who is using sustainably harvested small-diameter timber or a café owner buying products directly from local fishermen.

This TBL Scorecard can be adapted to any CDFI’s local environment and conditions. It is provided as an example of one tool that may help CDFIs think about their loans in ways that support and augment the environment as another measure of the success of our industry’s lending practices.

See Appendix for an abridged TBL Scorecard

What TBL Deals Should Your CDFI Focus On?

The scorecard is a useful starting point to developing shared TBL metrics in a field where CDFIs often have their own measurement histories and methodologies for environmental and equity outcomes. One strength of the TBLC is this diversity of methodologies and the willingness to answer the tough questions about whether the collaborative’s work is having an impact.

For example, SBEC believes that a triple bottom line metrics system that includes empirical data collection is how outcomes are best measured. SBEC took up the challenge of making the concept of sustainability tangible in its region by reviewing the metrics for sustainability drafted by the United Nations in 1999—in a document now known as the UN Global Compact. SBEC led a local, multi-stakeholder team to sort and select from this list of metrics by asking the question, “What natural systems are most critical to this special location where we live and work?”

SBEC’s region is most critically affected by watershed health and water quality; and this is reflected in the fact that two of SBEC’s nine TBL metrics relate to water quality. Hitting as many of these metrics targets as possible over time “connects the dots” and results in interactive and dense transactions that affect the larger systems at play in SBEC’s region. In other words, a loan is more than money lent; a loan must deliver measurable results—in SBEC’s case, restoration of linear riparian feet, for instance, or gallons of water diverted from the waste stream—that support an intentional process of change.

CEI, too, has a long history of achieving economic and equity goals from its investments. In the 1980s CEI pioneered the Employment Training Agreement requiring certain firms in which it invests to enter into long-term plans for hiring and training low-income workers.

Achieving environmental goals has been more difficult, and CEI often settles for two out of the three Es. However, in its small business investments, CEI uses a voluntary “Eco-Tag” agreement where CEI and the business work together in marshalling technical and capital resources to achieve greater environmental sustainability and efficiency in production processes and the choice of goods and materials in the supply chain. Participants agree to implement, track, and report the results of a qualifying project for one year in exchange for a rate reduction of 0.50%.

The TBLC reflected on these and other approaches to TBL metrics and ultimately created the TBL Scorecard as a way of measuring loan impact.

Where Do We Start?

What your organization can do depends on what you have already done or what your organization has the appetite for. You might want to think about next steps in terms of evaluating where your CDFI falls on a continuum of practice (see grid below) on the road to achieving TBL impact.

TBL Continuum

Stage 0	**Stage I**	**Stage II**	**Stage III**
No internal awareness of environmental importance/ link to CDFI mission	Internal recycling program or other measures (paper or energy, environmental-footprint, etc.)	Organizational cultural awareness about the importance of environmental issues for constituency	TBL mission impact metrics
Opinion that environmental measures cost money/are a trade-off/zero-sum game	Green procurement policies	Mission impact metrics	Continuous learning on TBL issues
	Philanthropic giving/volunteerism for environmental organizations	Commitment to carbon-neutral org-footprint	Participation in TBL “community of practice”
			TBL Portfolio

If possible, ask several people in your organization where they think your organization would fall in this staged continuum. Then determine what goal in the next higher stage you feel your organization could take on. Another way to view the phases of TBL development is outlined in *Appendix B: The TBL Progression Matrix*. The matrix outlines the expansion of TBL culture, both internal and external, from a staff impulse to an organizational strategy.

Create an ad hoc team to begin the process of outlining what steps would need to be taken to achieve the goal or goals you have selected. These steps might include some of the following:

- **Discovery**—Learn as much as you can about the goal you have identified; talk to people in organizations that have achieved the goal you have set your sights on.

- **Planning**—Now that you know a bit more about what the goal looks like, pull together a team to plan the steps that will get your organization to that goal, and then share your plan with all members of the organization who will be needed to accomplish the goals; get buy in/agreement for the sequence of steps and assign leadership and responsibility to completing the steps.

- **Implementation/accountability**—Establish tangible metrics for the steps you outline; determine how your progress will be measured in tangible metrics; and monitor your measurements: Are you getting closer to your goal? Does your plan seem to be working?

A CDFI pursuing TBL lending will gather resources for technical assistance (TA). TBLC members varied widely in how they approached TA. SBEC had a scientist on staff who could provide assistance on particular deals; sometimes the TBLC member was more likely to "hold the hand" of a borrower by pointing out external sources of TA they might access or sharing what another borrower discovered. Several TBLC members found that staff developed knowledge in a TBL area, and this was a resource for attracting more borrowers.

Most important is simply to begin. The nearly universal acknowledgement of human-caused global climate disruption adds urgency to the questions of how CDFIs can create TBL practices.

Dos and Don'ts of Triple Bottom Line Lending

Do

- Remember it's about process not product
- Read whatever you can on the topic
- Talk to others to share what your organization is doing and find out what others have tried
- Enlist a group of key opinion leaders in your organization into a dialogue about TBL
- Read and think about how adding the environment can strengthen, broaden, and enrich your lending strategy
- Learn from others and tailor your approach
- Find out what works for your region and your organization and culture
- Know it will take time to infuse a TBL way of thinking into your organization
- Be patient
- Begin somewhere and keep moving forward

Don't

- Don't be frustrated if things don't happen soon enough or as soon as you think they should
- Don't rush the process
- Don't try to go it alone

- Don’t try to pigeonhole your organization into using a tool that was adapted for another environment
- Don’t talk down to people, especially borrowers, about the need to “be green”
- Don’t be afraid to change your mind or change direction if something isn’t working
- Don’t think of adding the environmental metrics as “another task to do”
- Don’t assume that adding environmental practices will cost money

The Future of TBL Lending

Focusing on TBL innovation creates the opportunity to discuss loan strategies and loan product categories both internally and with lenders and funders. Loans in TBLC's TBL Portfolio reflect the following range of strategic approaches and products:

- *A renewable energy* strategy capitalized with development funds from public utility restructuring, which allowed the CDFI to both invest in more renewable energy generation and in a unique partnership with an energy service company that provided low balance-sheet and cash-flow impact for significant energy efficiency upgrades among large scale nonprofits
- Capitalization for small-scale Kentucky *timberland* owners to stem the tide of "quick cash liquidations" and predatory logging in exchange for improved forest management, and to ensure long-term environmental and financial sustainability of the small lots
- The launching of an "*ECO-Tag*" which links small businesses to climate change by creating interest rate reduction for borrowers that purchase green power and implement significant energy efficiency improvements
- Developing markets for *environmentally-friendly products* like small-diameter wood, which creates economic development opportunities while reducing environmental risk and pressure of forest fires
- *Lean manufacturing* as an entry point for bringing environmental issues onto the shop floor
- A *septic loan fund* to protect estuarine health and water quality, linking households, property values, and state-of-the-art septic systems and building home-owner equity
- An *energy-efficient home mortgage product* in Indian country and plans to organize a summit around energy conservation and energy auditing training for tribal members
- Investment in "*innovative disrupter*" entrepreneurs who understand environmental business opportunities that exponentially improve supply chain efficiency
- Loans that link preferential interest rates with internal *environmental efficiencies*

Rather than limiting lending practices, TBLC found that thinking about loans with the Three Es in mind strengthened and broadened strategic lending categories and opened new vistas for sourcing capital.

In many cases, potential borrowers did not approach the TBLC members with more than the economic bottom line in mind. The TBLC strongly believes that it is the role of the CDFIs to focus on the Three Es and to be able to direct and encourage the borrower to incorporate the third E into operations.

The work has only just begun, and the TBLC hopes to play an important role, with several goals going forward:

- Expand membership from nine members to 20;
- Continue to advance "best practice" techniques of TBL investing through peer learning;
- Raise funds to further capitalize respective TBL investing practices; and
- Widen impact through education, partnerships, and policy development with land conservation and environmental groups and the wider CDFI field.

Appendix A: Abridged TBL Scorecard

TBL Collaborative Investment Scorecard			
Organization Name:			
Investment "Name":			
Brief Description of Investment (3-5 sentences):			
Amount of Transaction ($):			
Date of Closing (if applicable):			
Economy Metrics		Does this deal have measurable outcomes for this metric (Y/N)?	What is the total (in units) of the measurable outcome (if applicable)?
1	Number of jobs created and/or retained (#FTE)		
2	Leveraged third-party investment ($)		
3	Secondary Value-added Businesses: Manufacturing Businesses (#), Natural Resource Businesses (#)		Manufacturing: Natural Resource:
4	Increased Payroll and benefits ($)		
5	Housing units created or preserved (#)		
6	Local Sourcing ($)		
Environment / Ecology Metrics		Does this deal have measurable outcomes for this metric (Y/N)?	What is the total (in units) of the measurable outcomes (if applicable)?
Sustainable Management of Natural Resources			
7	Sustainable/certified Fish, Farms and Forest (acres, # of investments)		
8	Land Conserved or restored (acres)		
	Protection of Water quality and systems		
9	Functioning riparian zone restored or retained (ft.)		
10	Water Quality preserved (gallons)		
Reductions in Material Use and Toxics			
11	Material diverted from the waste stream (lbs) and (# of units)		
12	Toxics reduced or eliminated (pounds)		
13	Improved Air Quality (ppm)		
14	Building Re-use (sq. ft.)		
15	Healthy buildings: improve indoor air quality (sq. ft.)		
Reductions in Energy consumption & Green House Gas Emissions			
16	Energy saved/conserved (Kilowatt/hours, BTUs, gallons)		
17	Energy efficient improvements (sq. ft.)		

18	Renewable energy capacity generated (megawatts, hours)		
19	Reduction in Greenhouse Gas Emissions (metric tons of CO2.)		
Promotion of Healthy Communities: Healthy Buildings, Smart Growth and Livable communities			
20	In-fill of buildings, sites and infrastructure (sq. ft.)		
Equity Metrics		Does this deal have measurable outcomes for this metric (Y/N)?	What is the total (in units) of the measurable outcomes (if applicable)?
21	Targeted Group entrepreneurs assisted (#) (women, people of color, etc.)		
22	Investments to targeted group of entrepreneurs ($)		
23	Firms/business start-ups in targeted areas (#)		
24	Entreprenuers supported in targeted areas (#)		
25	Number of low income families assisted (#)		
26	Value of services delivered to low income families ($)		
27	Local Ownership ($)		
28	Public Access to land/facilities (acres, sq. feet)		
29	Working waterfronts (lineal feet)		
30	Affordable housing units (#)		
31	Businesses or housing units made accessible (#)		
Deal Evaluation (qualitative evaluation describing secondary impacts, strategy impacts and other variables contributing to the TBL status of the deal):			

Appendix B: TBL Progression Matrix

Engagement level	Stage 0: Blank Slate	Stage I: Individual	Stage II: Organizational	Stage III: Strategic
Culture/Attitude	▪ No internal awareness of environmental importance/ link to CDFI mission ▪ Resistance from Board and staff due to perception of mission erosion or creep ▪ Perception that eco-measures cost money/are a trade-off to and may even work against poverty mission	▪ Growing awareness in individual staff about the importance of green-issues to mission ▪ Organizational 'eco-champions' may emerge ▪ Recognized self-interest, i.e. environment may provide opportunity	▪ Awareness about the critical nature of eco-issues for constituency ▪ Initial steps taken to integrate 'green values' into poverty and social justice work	▪ Continuous learning and innovation on TBL issues ▪ TBL as 'strategic' and core to products, programs and mission ▪ Creation of new and shared TBL vocabulary and ways of thinking
Internal Action	▪ Little or no support for staff exploration of TBL	▪ Internal recycling program ▪ Green procurement policies ▪ Employee and board education	▪ Commitment to carbon neutral org-footprint (e.g. measurement) ▪ Creation of mission impact metrics	▪ TBL mission impact metrics org-wide ▪ Board membership from conservation community ▪ "Comprehensive Community Development"
External Action	▪ None	▪ Philanthropic giving/ volunteerism for environmental-orgs	▪ Sharing/learning best practices with other orgs ▪ Green TA for clients ▪ New program & new product development	▪ Participation in TBL 'community of practice' ▪ TBL investments & portfolio ▪ Collaborations with local conservation NGOs

Notes

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